Innovative Financing: Meeting the Needs for Capital

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Transit Revenues & Expenditures

- Traditional Revenue Sources -- $39.6 billion
- Federal ($7.0 billion, 17.6%)
  - Mass Transit Account, General Fund, Flex Funds)
- State and Local ($21.5 billion, 62.7%)
  - Public Funds (General and Other), Taxes (Dedicated, Fuel, Income, Property, Sales)
- System Generated ($11.1 billion, 19.7%)
  - Fare box revenue, advertising
- Transit Expenditures -- $38 billion
  - Capital ($12.6 billion)
  - Operating ($25.4 billion)
- Capital Funding Shortfall (estimated)
  - $3 billion

Financing Options

- Capital Leasing
- Revenue Bonds
  - Fare Box Revenue Bonds
  - Grant Anticipation Notes
- Debt Service Reserve
- Public Private Partnerships
  - Existing
  - Pilot Program
- TIFIA
- State Infrastructure Banks

Capital Leasing

- Codified by TEA-21.
- Vendor or financial institution leases a capital asset to a transit agency in lieu of selling it to them.
- Grantee makes lease payments from a combination of Federal (up to 80%) and local funds.
- All Federal funding for capital investment can be used to lease rather than purchase transit equipment.
- Capital leases can include
  - Maintenance Costs (1996)
  - Finance charges, including interest
  - Ancillary costs, i.e., delivery and installation
- Use cost-benefit analysis to make lease vs. buy decision.
- Fewer capital leasing arrangements in periods of low interest rates.

Capital Leasing Examples

- Arkansas Lease Fund (1996)
  - Provide rural and specialized vans for accessible transit services
  - State DOT pools purchases and provides interest-free leases to operators
  - Funding
    - $270, 000 (FTA)
    - $330,000 (FHWA Vanpool Funds)
    - $150,000 (Local funds)
- Suburban Mobility Authority for Regional Transportation (SMART), Michigan (2000)
  - Replaced heavy-duty bus fleet in a 3-year fleet rotation period.
  - 10 years to pay for buses (fare box revenues, Federal and State grants)
  - Interest costs were less than maintenance costs

Revenue Bonds

- May be issued by State or local government & secured by repayment from transit agency
- Secured by a single or combination of revenue sources:
  - Motor vehicle registrations
  - Sales taxes
  - Property taxes
  - Fare box revenues (TEA-21)
    - Level of transit State and local funds 3 years subsequent to bond must exceed the level 3 years preceding the bond
    - Use of fare for bonds must be offset by revenue source for operating expenses
  - Anticipated grant receipts (TEA-21)
- Major issuers of revenue bonds:
  - BART, San Francisco
  - RTA, Chicago
  - Marta, Atlanta
  - MTA, Los Angeles
  - MTA, New York
  - Port Authority, NJ-NY

Grant Anticipation Notes (GANs)

- Type of revenue bond
- Enabled by TEA-21
- Principal and interest on GANs are eligible repayment with FTA capital funding
- Similar to FHWA GARVEE Bonds
- Proceeds from GANs can be used for part of the local match
- Since 1997, over $3.2 billion in GANs have been issued
  - 3 to 15 year terms
  - $18 to $450 million (principal)

GAN Examples

- Alaska Railroad (2006)
  - $78.4 million
  - Purchase rail assets including rolling
  - Secured by FTA formula & capital funds
- Chicago Transit Authority (CTA), 2004
  - $250 million
  - Purchase rail rolling stock
  - Secured by FTA formula funds
- Others
  - Boston MBTA , 2004, $77.8 million, CNG buses
  - Chicago Ravenswood Line, 2003, $128 million, FFGA
  - BART, Airport extension, 2001, $385 million, FFGA
  - NJT Hudson-Bergen LRT, 2000, $248 million

Debt Service Reserve (DSR)

- SAFETEA-LU authorized transit agencies to be reimbursed for up to 80 percent of deposits in a debt service reserve established for the purpose of financing transit capital projects from FTA formula and capital funds
- Cash reserves set aside by a borrower to repay a debt.
- Will reduce grantees' out-of-pocket DSR issuance costs
- Creation of DSR and reimbursement process
  - Agency first issues bonds pledging local revenue
  - Agency funds DSR with proceeds from the bond
  - Agency applies for Federal reimbursement
- No transit agency has applied for DSR reimbursement so far

49 U.S.C. 5302 (a)(1)(K)

Private Activity Bonds (PABs)

- Section 142 of IRS Code
  - Municipal tax-exempt securities
  - Levels set by State
  - May be issued a private entity for a public purpose including intermodal freight terminals
  - State "caps" are set by the IRS on a population basis
  - Eligible projects must be under Title 23
    - Ferry boat
    - Commuter rail
- SAFETEA-LU
  - Supplemented State caps with a total of $15 billion
  - No known transit projects to date

Public-Private Partnerships

- Arrangement between public and private sectors to acquire or build a public project
- Transit PPPs may take multiple forms
- <u>Procurement:</u> Fixed price contract and joint and several liability of consortium
    - (i) shift risk from project sponsor to private sector, and
    - (ii) reduce overall risk in procurement
- <u>Operation:</u> Operation and maintenance contracts awarded on the basis of subsidy minimization
- <u>Design Build Operate and Maintain (DBOM):</u> Fixed price for the procurement and operation of a transit asset and may include financing

Public-Private Partnerships

- Design Build Operate and Maintain
  - Las Vegas Monorail
    - Tax exempt bonds, public funds ($600 million)
  - Hudson Bergen Light Rail Tunnel
    - Publicly owned, GANs ($844.9 million)
- Private Developer
  - Bart Airport Extension
    - Public grants, local tax dollars, GANs ($385 million)
- TIFIA Loans
  - WMATA Infrastructure Renewal Program ($600 million guarantee)
  - TREN Urbano rail transit ($300 million loan)

Public-Private Partnership Pilot Program (Penta-P)

- To demonstrate advantages and disadvantages of PPP's
- Excluded fixed-guideway projects receiving New Starts full funding grant
- Selected participants
  - Denver's East Corridor and Gold Line Corridor Rail
  - BART to Oakland Airport Extension
  - Houston North Corridor and Southeast Corridor BRT Projects

Transportation Infrastructure Finance and Innovation Act (TIFIA)

- Created by TEA-21/Reauthorized by SAFETEA-LU
- Administered by DOT
  - Secured (direct) loan
  - Loan guarantees
  - Line of credit
- SAFETEA-LU Criteria
  - Minimum transit project cost $50 million (from $100 million)
  - Minimum ITS project cost $15 million plus (from $30 million)
  - $610 million available funds
- Transit Projects
  - WMATA Infrastructure Renewal Program ($600 million guarantee)
  - TREN Urbano, Rail Transit (retired - $300 million)
  - Staten Island Ferry (retired - $179 million)

State Infrastructure Banks (SIBs)

- TEA-21 /SAFETEA-LU
- Capitalized with Federal and State funds
  - Highways in practice
  - Transit in principle
- Enhance opportunities for private investment by lowering risk
- SIBs in eight states have executed at least 1 transit loan ($317 million).

Recap

- Demand for transit funding is rising faster than available funds
- A wide variety of traditional financing mechanisms exist for transit agencies to increase their access to funds.
- These traditional financing mechanisms have been supplemented by Federally-supported financing mechanisms
- Federal-supported financing mechanisms help transit
  - Leverage other funding sources
  - Reduce principal and interest costs
- Federally-supported financing mechanisms help reduce the risk to private investors of lending for transit

Innovative Finance Resources

- FTA web site:
  - http://www.fta.dot.gov
- TIFIA web site
  - http://tifia.fhwa.dot.gov
- FHWA web site
  - http://www.fhwa.dot.gov/innovativefinance
- New Clearinghouse
  - http://www.innovativefinance.org